

To the Members of the California State Assembly:

I am returning Assembly Bill 518 without my signature.

Inherent in any long-range fiscal projections are dramatic swings in the state's economy that forecasting models have historically failed to predict. Most long-range projections in the late 1990s, for example, failed to anticipate the dramatic decline in revenues associated with the collapse of the dot-com "boom." Conversely, the revenues associated with this year's tax amnesty program far outstripped projections made as recently as one year ago.

While the state has been on this revenue roller coaster, it has failed in the past to act responsibly on the expenditure side. Programs were expanded during the dot-com boom without regard of the state's long-term ability to afford them. When that boom went bust, those programs were financed in large measure by borrowing and fund shifts – creating the structural gap between revenues and expenditures that we continue to work to close.

I share the concerns of the author over the state's long-term fiscal outlook. It is precisely why I have argued strongly this year – and I continue to argue strongly – for the need to implement fundamental reform of the state's budgeting system. Such a reform would keep spending in check during these swings in revenue, and thereby improve the state's long-term fiscal outlook.

The Department of Finance works on long-range forecasts by making projections in major agency areas, not by department as would be required by this bill. We will continue to share this information with the Legislature as we do now. The Legislature has available to it the resources of the non-partisan Legislative Analyst, who reports directly to the Legislature. The analyst routinely makes multi-year revenue and expenditure projections, and if requested by the Legislature, is capable of providing a range of potential policy options to close any projected gaps for their consideration.

Sincerely,

Arnold Schwarzenegger